

NZ Institute of Economic Research (Inc)
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Consensus Forecasts

NZIER *Consensus Forecasts* show a weaker economic outlook for years beyond 2024

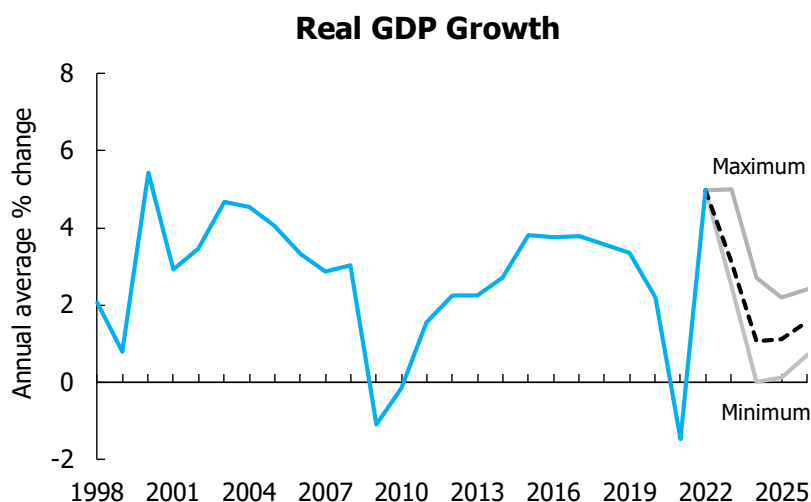
The latest NZIER *Consensus Forecasts* show a stronger starting point for the New Zealand economy over the coming year but a downward revision for 2025 and 2026. Although the economy appears resilient despite the sharp rise in interest rates over the past year, expectations that interest rates will now have to go up by more than previously expected are likely to have driven a downward revision for the later part of the projection. As more fixed-term mortgages get repriced within the next twelve months, the dampening effect of interest rate increases on economic activity will become more apparent over the coming years.

Household consumption has been revised down beyond 2024. The decline in sales of durable goods and an increase in the household saving ratio over the past year already indicate signs of reduced appetite for spending on big-ticket items due to increased living costs and interest rates. Forecasts for residential investment have been revised further down. This reflects expectations of weaker housing market activity and construction demand for the coming years.

Despite a strong starting point for export growth, the forecasts of export growth have been revised lower for years after 2023. Although global demand for New Zealand exports has picked up in recent months, concerns about a weaker global economic outlook weigh on expectations for export demand over the coming years. However, given the constrained global supply of food commodities, demand for New Zealand food exports should remain fairly robust. Fonterra's forecast milk price payout still suggests a positive outlook over the longer term.

The ongoing capacity pressures, especially labour shortages, are keeping annual CPI inflation at historically high levels – 7.2 percent in the year to September 2022. This has pushed near-term annual inflation expectations to above 6 percent – up from just below 5 percent in the previous NZIER *Consensus Forecasts*. Beyond that, inflation is expected to remain above the Reserve Bank's inflation target mid-point of 2 percent through to 2026.

Figure 1 Lower expectations of growth for 2025 and 2026

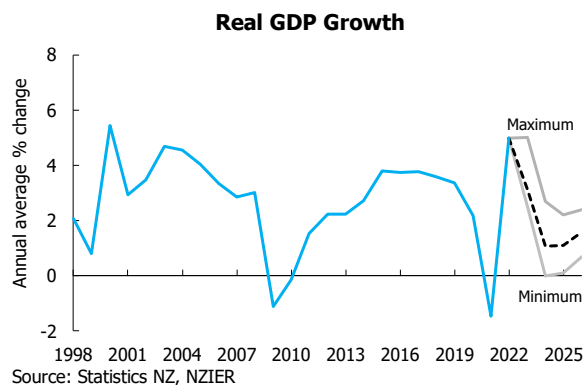


Source: Statistics NZ, NZIER

Mixed outlook for real GDP growth

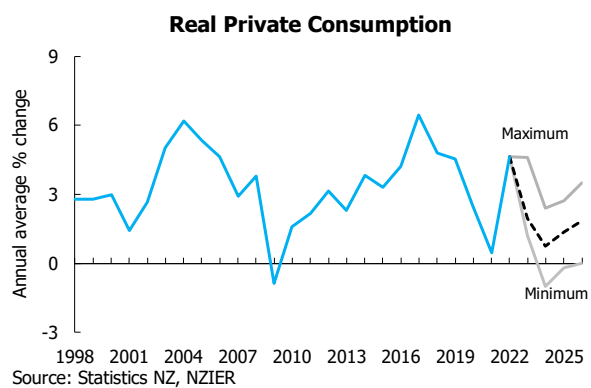
Consensus Forecasts for GDP growth show a mixed outlook for the next few years. Annual GDP growth for the years ending March 2023 and March 2024 has been revised up to 3.1 percent and 1.1 percent, respectively. However, forecasts for growth beyond 2024 have been revised lower.

These revisions reflect the lagged impact of interest rate increases on economic activity and uncertainties over the longer-term outlook, given Reserve Bank's recent forecast of a recession.



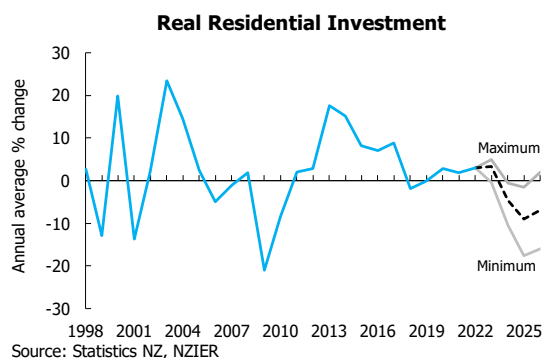
Softer growth in household spending in the near term and after 2024

Forecasts of household spending have been revised lower beyond 2024. There are signs of households reducing spending on big-ticket items and increasing savings in the face of increased living costs and interest rates. The dampening effect of interest rate increases on spending will become more apparent over the coming years as more households face repricing of their fixed mortgage rates and significantly higher mortgage repayments over the next 12 months.



Further weakening in investment outlook

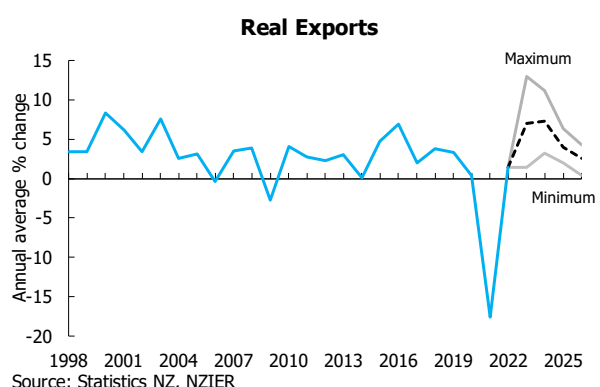
Investment forecasts have been revised further down for the coming years, especially for residential investment. This reflects expectations of a flow-on impact from weaker housing market activity, and banks have already started tightening access to lending for property. NZIER's QSBO's measure of architects' activity also points to weaker construction demand for the years ahead.



Exports revised lower for years after 2023

The export outlook for the near term has revised higher as global demand for New Zealand exports has picked up in recent months. While concerns about a weaker global economic outlook weigh on the export outlook for the subsequent years, the constrained global supply of food commodities should still keep demand for New Zealand food exports robust.

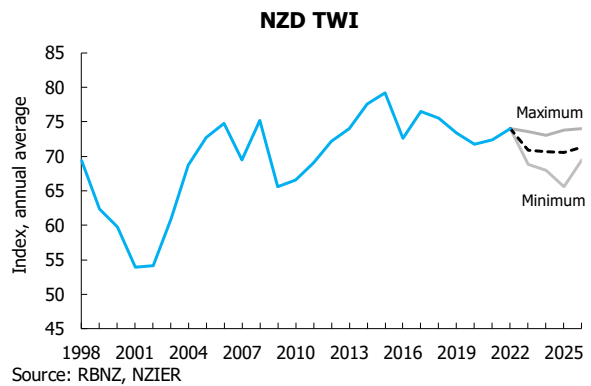
Forecasts for import growth have been revised down, reflecting weaker domestic spending.



NZD revised lower for the medium-term

The NZD TWI has been revised lower through to 2026. Although interest rate expectations in New Zealand have increased as the Reserve Bank has indicated further OCR increases, other major central banks, especially the US Fed Reserve, have also increased their interest rates rapidly. This reduces the yield attractiveness of NZD-denominated assets, which has weighed on demand for the NZD.

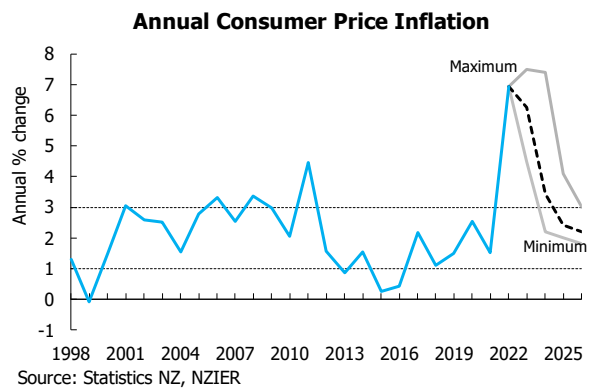
The NZD is expected to track around 71 on the TWI over the coming years.



Inflation outlook further revised up

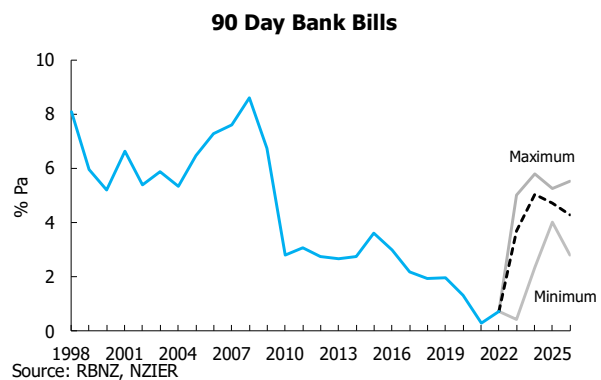
The inflation outlook for the years through to 2026 has been further revised up. Ongoing capacity pressures, especially labour shortages, have kept annual CPI inflation high over the past year. This has pushed up inflation expectations for 2023 to 6.3 percent.

Annual CPI is forecast to moderate to 3.4 percent in 2024 and ease to 2.2 percent in 2026 – still above the RBNZ inflation target mid-point of 2 percent.



Expectations for higher interest rates

The outlook for interest rates has again been revised up across the projection horizon. This reflects the expectation of further interest rate increases over the coming years, given the Reserve Bank indicated in its November *Monetary Policy Statement* that it will raise the OCR by more than previously forecast in order to rein in inflation.



Wage growth outlook stays elevated

The ongoing labour shortages and higher inflation expectations have again driven up forecasts for wage growth across the projection horizon.

The outlook for employment growth has been revised higher for 2023 but lower for 2025 and 2026. Forecasts for the unemployment rate have seen an upward revision for the years beyond 2023. These reflect expectations of an easing in labour market tightness for the coming years, as firms can now bring in workers from overseas.

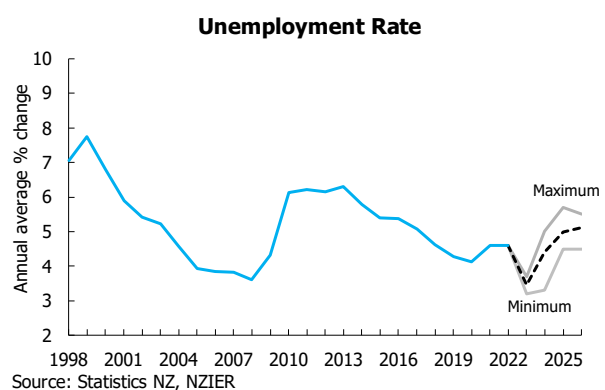


Table 1 Latest *Consensus Forecasts* compared to previous

aapc, March years	Dec-2022 survey				Sep-2022 survey			
	2022/23	2023/24	2024/25	2025/26	2022/23	2023/24	2024/25	2025/26
GDP	3.1 ↑	1.1 ↑	1.1 ↓	1.6 ↓	2.5	1.0	1.5	2.2
Private consumption	1.9 ↓	0.7 ↑	1.4 ↓	1.9 ↓	3.2	0.3	1.7	2.8
Public consumption	5.7 ↑	1.1 ↑	0.4 ↑	1.0 ↓	5.1	-1.3	-0.6	1.2
Fixed investment:					0.0	0.0	0.0	0.0
Residential	3.3 ↓	-4.7 ↓	-8.9 ↓	-6.8 ↓	3.9	-4.6	-5.6	-4.5
Other	3.7 ↓	0.8 ↓	0.9 ↓	2.8 →	7.5	1.0	1.2	2.8
Total	3.5 ↓	-0.6 ↓	-1.4 ↓	0.8 ↓	6.6	-0.4	-0.4	1.3
Exports, goods & services	7.0 ↑	7.3 ↓	4.0 ↓	2.5 ↓	2.6	9.1	4.7	3.1
Imports, goods & services	4.7 ↓	2.7 ↓	1.6 ↓	2.0 ↓	5.8	3.0	1.7	2.8
Consumer price index (apc)	6.3 ↑	3.4 ↑	2.4 ↑	2.2 ↑	4.8	2.7	2.3	2.1
New Zealand TWI (avg yr to Mar)	70.9 ↓	70.7 ↓	70.6 ↓	71.3 ↓	71.8	72.0	72.6	72.5
90 day bank bill (avg yr to Mar)	3.7 ↑	5.0 ↑	4.7 ↑	4.3 ↑	3.5	4.0	3.4	3.1
10 year govt bond (avg yr to Mar)	3.8 ↑	4.3 ↑	4.3 ↑	4.0 ↑	3.7	3.7	3.6	3.6
Current account balance (NZ\$b; Mar yr)	-29.3 ↓	-28.0 ↓	-24.4 ↓	-19.9 ↓	-27.7	-22.6	-20.5	-17.0
Employment	1.9 ↑	0.2 →	0.9 ↓	1.1 ↓	0.5	0.2	1.0	1.3
Unemployment (% of labour force)	3.5 →	4.4 ↑	5.0 ↑	5.1 ↑	3.5	4.3	4.7	4.8
Wages (private sector avg hourly earnings)	7.4 ↑	6.6 ↑	5.5 ↑	4.1 ↑	6.4	5.4	4.2	3.3
Government operating balance (NZ\$b, September yr)	-7.9 ↑	-7.2 →	-4.9 ↓	-3.3 ↓	-9.7	-7.2	-2.4	1.6

Note: aapc = annual average percent change, apc = annual percent change, arrows refer to direction of change from last survey

Source: NZIER

Table 2 Breakdown of the forecasts

qpc, quarters	Sep-22 f			Dec-22 f			Mar-23 f		
	Low	Mean	High	Low	Mean	High	Low	Mean	High
GDP (seasonally adjusted, qpc)	0.4	0.7	1.0	0.2	0.5	0.6	0.1	0.2	0.4
CPI (qpc)	Dec-22 f			Mar-23 f			Jun-23 f		
	Low	Mean	High	Low	Mean	High	Low	Mean	High
CPI (qpc)	0.3	1.1	1.7	0.3	1.3	2.0	0.5	0.9	1.5

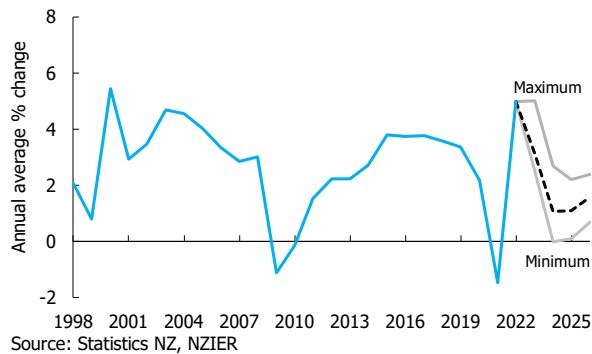
aapc, March years	2022/ 2023 f			2023/ 2024 f			2024/ 2025 f			2025/ 2026 f		
	Low	Mean	High	Low	Mean	High	Low	Mean	High	Low	Mean	High
GDP	2.5	3.1	5.0	0.0	1.1	2.7	0.1	1.1	2.2	0.7	1.6	2.4
Private consumption	1.2	1.9	4.6	-1.0	0.7	2.4	-0.2	1.4	2.7	0.0	1.9	3.5
Public consumption	3.8	5.7	10.3	-2.2	1.1	3.7	-2.0	0.4	2.5	-1.6	1.0	2.4
Fixed investment												
- Residential	-0.4	3.3	4.9	-10.5	-4.7	-0.5	-17.6	-8.9	-1.5	-15.9	-6.8	2.0
- Other	1.1	3.7	10.5	-2.9	0.8	3.5	-3.3	0.9	3.8	2.4	2.8	3.5
- Total	0.8	3.5	7.9	-4.0	-0.6	2.0	-3.7	-1.4	1.7	-1.3	0.8	3.1
Exports, goods and services	1.4	7.0	13.0	3.2	7.3	11.2	2.0	4.0	6.3	0.4	2.5	4.3
Imports, goods and services	1.1	4.7	17.2	0.3	2.7	5.8	0.8	1.6	3.3	-1.5	2.0	5.0
Consumer price index (apc)	4.5	6.3	7.5	2.2	3.4	7.4	2.0	2.4	4.1	1.8	2.2	3.0
New Zealand TWI (avg yr to Mar)	68.8	70.9	73.6	68.0	70.7	73.1	65.7	70.6	73.8	69.5	71.3	74.0
90 day bank bill (avg yr to Mar)	0.4	3.7	5.0	2.3	5.0	5.8	4.0	4.7	5.3	2.8	4.3	5.5
10 year government stock (avg yr to Mar)	1.6	3.8	4.3	3.4	4.3	4.9	3.6	4.3	5.2	2.5	4.0	5.2
Current account balance (NZ\$b; Mar yr)	-32.0	-29.3	-24.2	-33.8	-28.0	-17.6	-29.7	-24.4	-14.2	-27.7	-19.9	-14.3
Employment	1.4	1.9	2.6	-1.1	0.2	1.6	-0.1	0.9	1.7	0.5	1.1	1.5
Unemployment rate (% of labour force)	3.2	3.5	3.7	3.3	4.4	5.0	4.5	5.0	5.7	4.5	5.1	5.5
Wages (private sector avg hourly earnings)	4.4	7.4	8.7	4.4	6.6	8.5	4.2	5.5	8.9	2.8	4.1	7.5
Government operating balance (NZ\$m, December yr)	-8.8	-7.9	-5.8	-8.3	-7.2	-4.0	-8.1	-4.9	2.1	-7.1	-3.3	4.4

Notes: aapc = annual average percent change, apc = annual percent change, qpc = quarterly percent change
 These results show only means; standard deviations are available on request

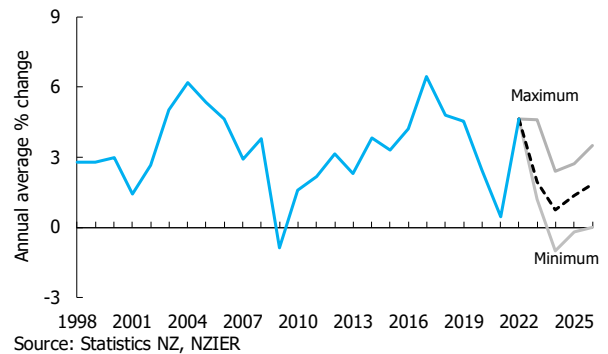
Source: NZIER

Summary charts

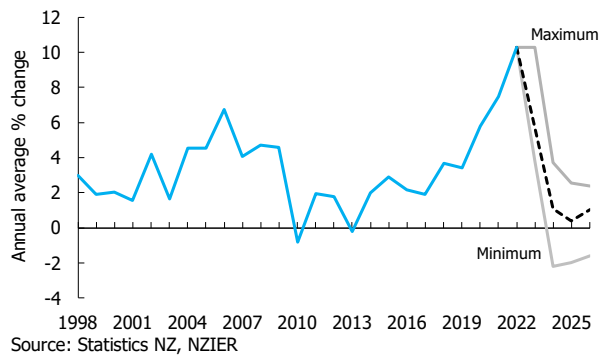
Real GDP Growth



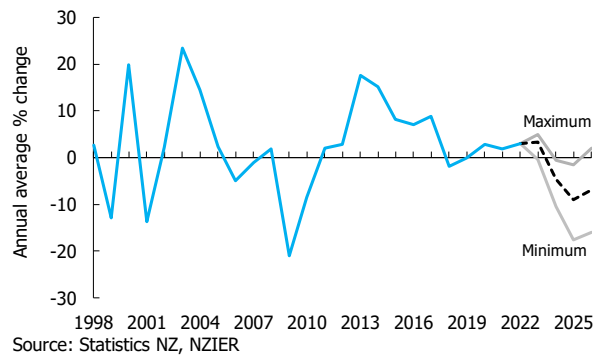
Real Private Consumption



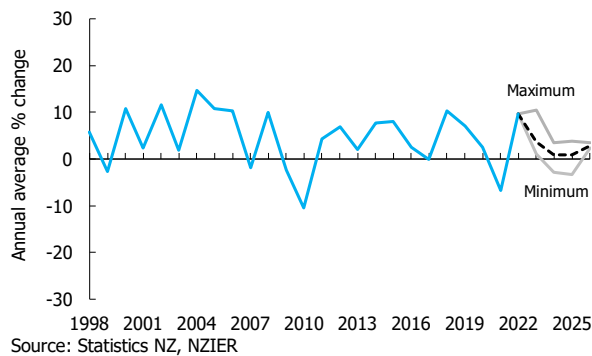
Real Public Consumption



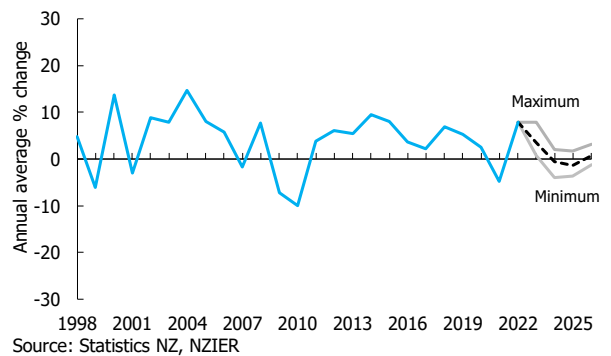
Real Residential Investment



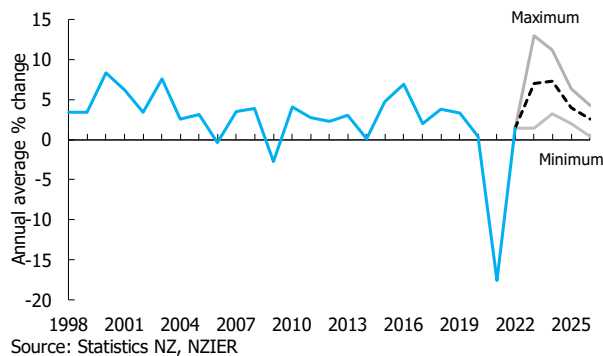
Real Other Investment



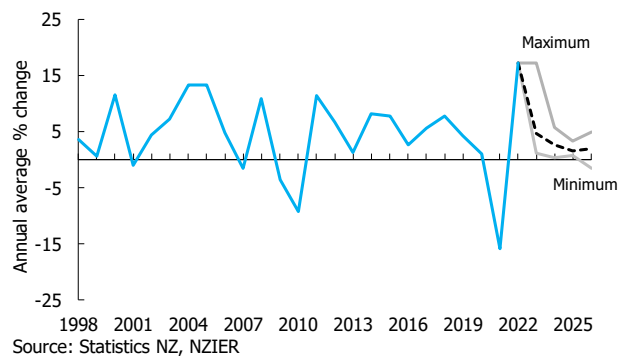
Real Total Investment



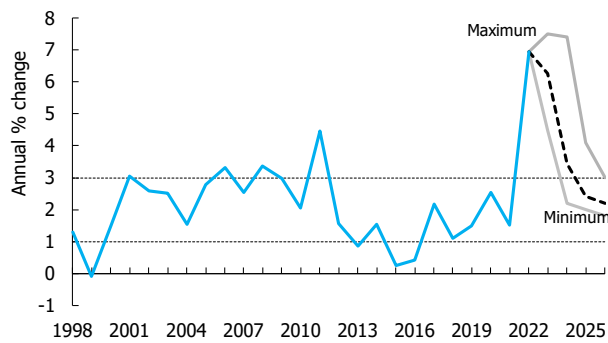
Real Exports



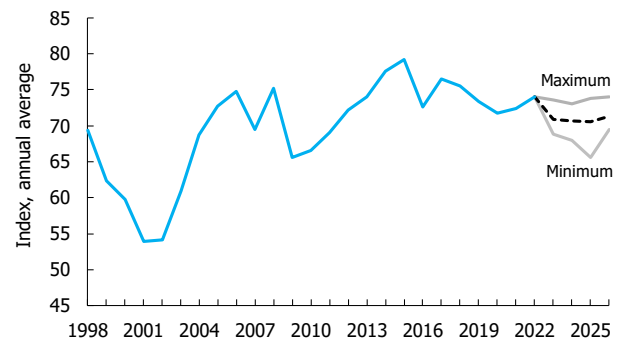
Real Imports



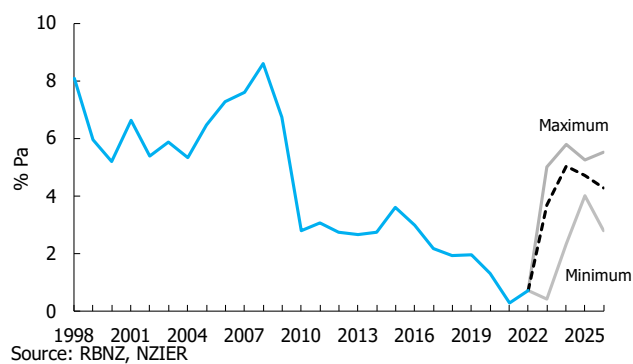
Annual Consumer Price Inflation



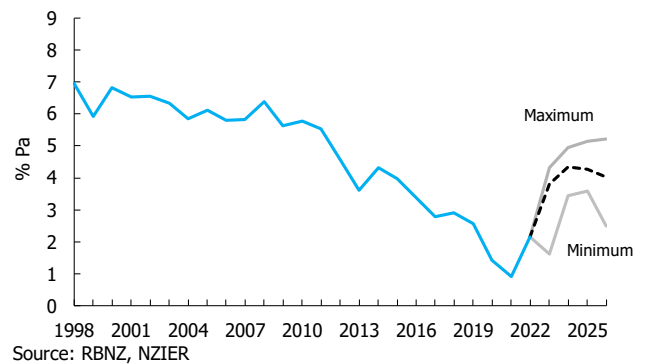
NZD TWI



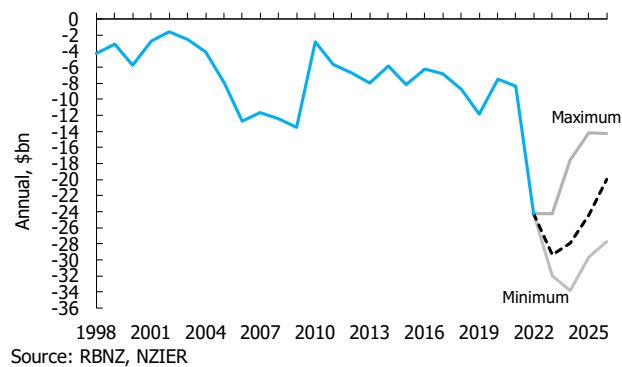
90 Day Bank Bills



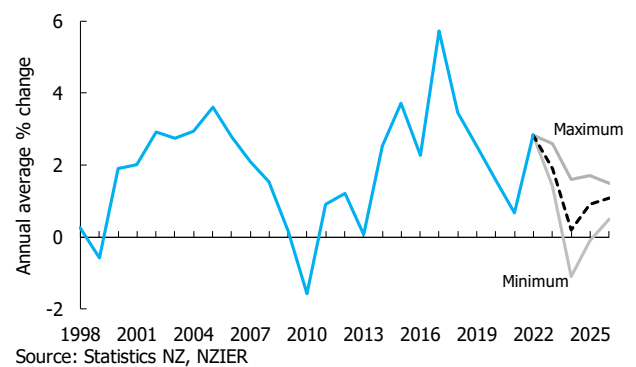
10 Year Government Bond Yield



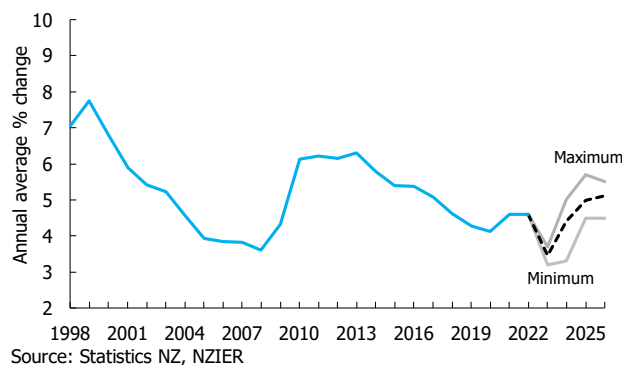
Current Account Balance



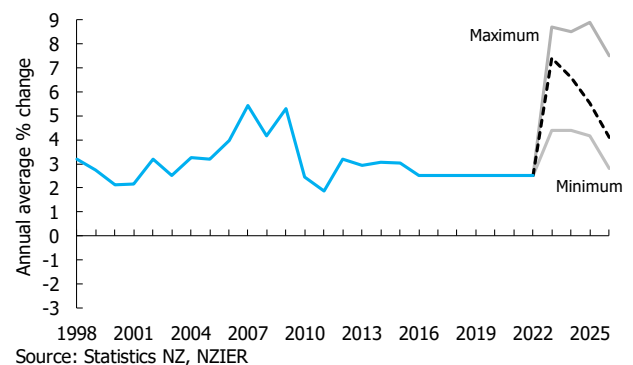
Employment Growth

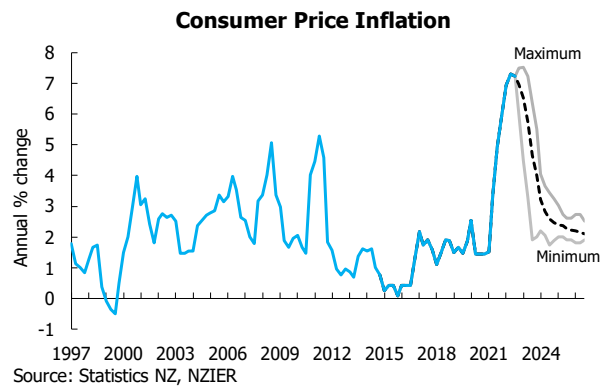
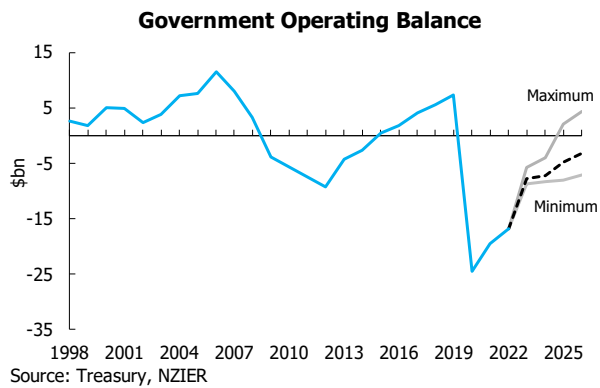


Unemployment Rate



Private Sector Wage Inflation





The NZIER Consensus Forecasts are an average of New Zealand economic forecasts compiled from a survey of financial and economic agencies. These are not NZIER's forecasts. The average forecasts do not necessarily represent the views of individual participants. Forecasts are for March years, e.g. 2021 refers to the year ended March 2021.

Respondents

ANZ Bank
ASB Bank
Bank of New Zealand
Kiwibank
New Zealand Institute of Economic Research
Reserve Bank of New Zealand
The Treasury
Westpac

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